



0000094782

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: March 23, 2009

RE: STAFF REPORT FOR Q MOUNTAIN MOBILE HOME PARK'S APPLICATION
FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02518A-09-0076)

Attached is the Staff Report for Q Mountain Mobile Home Park's application for an emergency rate increase. Staff recommends conditional approval of the emergency rate request.

A Procedural Order has set a hearing date on this case of April 3, 2009. Any comments or exceptions to the Staff Report may be filed with Docket Control no later than 4:00 p.m., April 2, 2009.

EGJ:CSB:tdp

Originator: Crystal Brown

Arizona Corporation Commission
DOCKETED**MAR 23 2009**

DOCKETED BY	
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RECEIVED
2009 MAR 23 P 3:14
AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Q Mountain Mobile Home Park
Docket No. W-02518A-09-0076

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President of the Board
Q Mountain Mobile Home Park
Post Office Box 4930
Quartzsite, Arizona 85359

Ms. Janice Alward
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

Q MOUNTAIN MOBILE HOME PARK

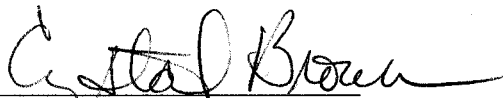
DOCKET NO. W-02518A-09-0076

**APPLICATION FOR A
EMERGENCY RATE INCREASE**

MARCH 23, 2009

STAFF ACKNOWLEDGMENT

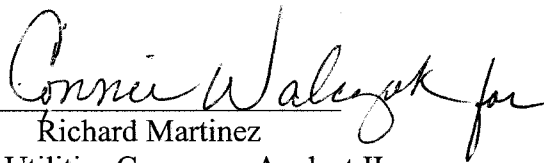
The Staff Report for the Q Mountain Mobile Home Park, ("Company") application for an emergency rate increase, Docket No. W-02518A-09-0076, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Commission's records on the Company.



Crystal Brown
Public Utility Analyst V



Katrin Stukov
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
Q MOUNTAIN MOBILE HOME PARK
DOCKET NO. W-02518A-09-0076

On February 20, 2009, Q Mountain Mobile Home Park ("Q Mountain" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission").

Q Mountain is a Class E water utility that provides water service to approximately 223 metered customers in La Paz County, Arizona. The current rates, authorized in Decision No. 57816, have been in effect since May 1, 1992.

The Arizona Department of Environmental Quality ("ADEQ") informed Q Mountain, in 2008, that the nitrate level in its well exceeded the maximum contaminant level. To correct the problem, the Company entered into an agreement¹ with the Town of Quartzsite ("Town"). The agreement required Q Mountain to pay for the cost to connect to the Town's water system and pay a \$750 hook-up fee per lot. The Town is currently direct billing customers and gives three options of paying the \$750 fee: a one time payment of \$750, or annual payments of \$150 for five years, or monthly payments of \$12.50 for five years.

The Company indicated that it has completed its interconnection with the Town and is now receiving water that meets the federal drinking water standards. Also, its customers are paying the \$750 fee without Commission approval. Consequently, Q Mountain's emergency rate application requests authorization of the \$750 fee. Further, Mr. Kelley, the president of the Company stated that the Town could discontinue providing water if the monthly fees are not paid.

Staff concludes that Q Mountain's condition satisfies criteria number three discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which have been in effect for approximately 17 years, are not sufficient to pay the \$750 fee charged by the Town for providing safe drinking water. Moreover, Q Mountain could be disconnected if payments are not made to the Town.

RECOMMENDATIONS

Staff recommends:

1. Approval of the Company proposed and Staff recommended connection surcharge of \$750. Staff further recommends that customers be given the following payment options: a one time payment of \$750, or annual payments of \$150 for five years, or monthly payments of \$12.50 for five years.
2. That the interim emergency connection surcharge not go into effect until Q Mountain changes the billing procedure with the Town such that the Town bills Q Mountain for the

¹ After receiving approval from the home owners' association ("HOA")

hook-up fee rather than each customer. Further, Staff recommends that within 60 days of the date of the Decision resulting in this matter that Q Mountain: (a) Obtain a listing from the Town of the amounts paid for the hook-up fee and the outstanding balance for each customer as of the most recent date available, and (b) Credit each customer's bill for all amounts paid to the Town for the hook-up fee.

3. The Company file a full permanent rate case no later than April 30, 2010, using a calendar year 2009, test year.
4. The interim rates stay in effect until December 31, 2010, or until an order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2010, the interim rates shall cease on July 31, 2010.
5. The interim rate be subject to refund pending the decision resulting from the permanent rate increase case required to be filed in this proceeding.
6. The Company post a bond or a letter of credit with the Commission in the amount of \$58,537², with the Commission prior to implementing the emergency rate increase authorized in this proceeding.
7. The Company be directed to file, within 30 days of the decision, a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.
8. The Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
9. Staff recommends that any decision granted in this proceeding not become effective until the Company files with Docket Control, as a compliance item in the same docket, documentation showing that the Company's water system is in full compliance with ADEQ requirements and delivering safe water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
10. The Company file a Curtailment Plan Tariff ("CPT") with Docket Control, as a compliance item in the same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffCONS.pdf>.
11. The Company file a backflow prevention tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff

² 223 customers x \$12.50 x 21 months (Apr 09 to Dec 10) = \$58,537

shall generally conform to the sample tariff found posted on the Commission's website at www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf.

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INTRODUCTION

On February 20, 2009, Q Mountain Mobile Home Park ("Q Mountain" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission").

BACKGROUND

Q Mountain is a Class E water utility that provides water service to approximately 223 metered customers in La Paz County, Arizona. The current rates, authorized in Decision No. 57816, have been in effect since May 1, 1992.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period of January 1, 2006 through March 2, 2009, and found no complaints or opinions reported. The Company is in good standing with the Corporations Division of the Commission as of March 2, 2009.

ENGINEERING ANALYSIS

Staff reviewed the Company's interconnection costs which totaled approximately \$74,302 and determined that the cost appeared reasonable and appropriate. However, this determination does not imply any particular future rate base treatment for the plant. Further, Staff recommends that:

1. Staff recommends that any decision granted in this proceeding not become effective until the Company files with Docket Control, as a compliance item in the same docket, documentation showing that the Company's water system is in full compliance with ADEQ requirements and delivering safe water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Company file a Curtailment Plan Tariff ("CPT") with Docket Control, as a compliance item in the same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffCONS.pdf>.
3. The Company file a backflow prevention tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's website at www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf.

COMPLIANCE

A check of the compliance database indicates that there are currently no delinquencies for Q Mountain.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates³ include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

The Arizona Department of Environmental Quality ("ADEQ") informed Q Mountain, in 2008, that the nitrate level in its well exceeded the maximum contaminant level. To correct the problem, the Company entered into an agreement⁴ with the Town of Quartzsite ("Town"). The agreement required Q Mountain to pay for the cost to connect to the Town's water system and pay a \$750 hook-up fee per lot. The Town is currently direct billing customers and gives three options of paying the \$750 fee: a one time payment of \$750, or annual payments of \$150 for five years, or monthly payments of \$12.50 for five years.

The Company indicated that it has completed its interconnection with the Town and is now receiving water that meets the federal drinking water standards. Also, its customers are paying the \$750 fee without Commission approval. Consequently, Q Mountain's emergency rate application requests authorization of the \$750 fee. Further, Mr. Kelley, the president of the Company stated that the Town could discontinue providing water if the monthly fees are not paid.

STAFF'S ANALYSIS

Staff reviewed the emergency rate application, the Company's unaudited 2007 annual report, and discussed the matter with Mr. Kelley. Mr. Kelley indicated that approximately 50 customers have paid the \$750 in full and have received a letter from the Town stating such. The remainder of the customers have made partial payments. Based on the results of Staff's limited

³ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001) ("Rio Verde").

⁴ After receiving approval from the home owners' association ("HOA")

review, Staff recommends adoption of the \$750 interim emergency connection surcharge proposed by the Company. Staff further recommends that customers be given the following payment options: a one time payment of \$750, or annual payments of \$150 for five years, or monthly payments of \$12.50 for five years.

If all customers chose the \$12.50 payment option, the Company would generate additional revenue of approximately \$33,450 per year as shown on Schedule CSB-1. Further, Staff recommends that the interim emergency surcharge not go into effect until Q Mountain changes the billing procedure with the Town such that the Town bills Q Mountain for the hook-up fee rather than each customer. Further, Staff recommends that within 60 days of the date of the Decision resulting in this matter that Q Mountain: (1) Obtain a listing from the Town of the amounts paid for the hook-up fee and the outstanding balance for each customer as of the most recent date available, and (2) Credit each customer's bill for all amounts paid to the Town for the hook-up fee.

CONCLUSION

Staff concludes that Q Mountain's condition satisfies criteria number three discussed in the "Conditions Necessary For Emergency Rate Relief" section of this Report. The Company's existing rates, which have been in effect for approximately 17 years, are not sufficient to pay the \$750 fee charged by the Town for providing safe drinking water. Moreover, Q Mountain could be disconnected if payments are not made to the Town.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the Company proposed and Staff recommended connection surcharge of \$750. Staff further recommends that customers be given the following payment options: a one time payment of \$750, or annual payments of \$150 for five years, or monthly payments of \$12.50 for five years.
2. That the interim emergency surcharge not go into effect until Q Mountain changes the billing procedure with the Town such that the Town bills Q Mountain for the hook-up fee rather than each customer. Further, Staff recommends that within 60 days of the date of the Decision resulting in this matter that Q Mountain: (a) Obtain a listing from the Town of the amounts paid for the hook-up fee and the outstanding balance for each customer as of the most recent date available, and (b) Credit each customer's bill for all amounts paid to the Town for the hook-up fee.
3. The Company file a full permanent rate case no later than April 30, 2010, using a calendar year 2009, test year.

4. The interim rates stay in effect until December 31, 2010, or until an order is issued in the permanent rate case, whichever comes first. However, if the Company's permanent rate case filing is not found to be sufficient by July 31, 2010, the interim rates shall cease on July 31, 2010.
5. The interim rate be subject to refund pending the decision resulting from the permanent rate increase case required to be filed in this proceeding.
6. The Company post a bond or a letter of credit with the Commission in the amount of \$58,537⁵, with the Commission prior to implementing the emergency rate increase authorized in this proceeding.
7. The Company be directed to file, within 30 days of the decision, a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.
8. The Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.
9. Staff recommends that any decision granted in this proceeding not become effective until the Company files with Docket Control, as a compliance item in the same docket, documentation showing that the Company's water system is in full compliance with ADEQ requirements and delivering safe water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
10. The Company file a Curtailment Plan Tariff ("CPT") with Docket Control, as a compliance item in the same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffCONS.pdf>.
11. The Company file a backflow prevention tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's website at www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf.

⁵ 223 customers x \$12.50 x 21 months (Apr 09 to Dec 10) = \$58,537

Q Mountain Mobile Home Park
Docket No. W-02518A-09-0076
Emergency Rate Application

Schedule CSB-1

Line No.

	Annual Connection Surcharge Revenue
1 Number of Mobile Home Customers	223
2 Multiplied by: \$12.50 Connection Surcharge	\$ 12.50
3 Monthly Connection Surcharge	\$ 2,788
4 Multiplied by: 12 Months	12.00
5 Annual Connection Surcharge	\$ 33,450

MEMORANDUM

DATE: March 10, 2009

TO: Crystal Brown
Public Utilities Analyst V

FROM: Katrin Stukov
Utilities Engineer KS

RE: Q Mountain Mobile Home Park
Emergency Rate Application
Docket No. W-02518A-09-0076

Introduction

Q Mountain Mobile Home Park ("Company") has filed an application with the Arizona Corporation Commission ("ACC") requesting an emergency rate increase. The Company has interconnected with the Town of Quartzsite Public Water System ("Town")¹ and now receives all its water from the Town. According to the submitted costs information, the cost of interconnection includes an Engineering fee of \$9,732.50, road ownership fee of \$2,000.00 and construction expenses of \$62,569.00. The Company has indicated that the interconnection project included construction of approximately 680' of 12" PVC waterline with related fittings, a backflow prevention device and a 6-inch meter.

Staff has reviewed the expenses which total \$74,302 (rounded) that the Company incurred constructing the interconnection with the Town and determined that these expenses appear to be reasonable and appropriate. However, this does not imply any particular future treatment for rate base.

Arizona Department of Environmental Quality ("ADEQ") Compliance

The ADEQ has reported that based on its inspection of the Company's Public Water System ("PWS") # 15-509, ADEQ has determined that the Company's wells, pressure tanks, and storage tanks have been disconnected from the distribution system², and the distribution system has been connected to the Town of Quartzsite PWS (AZ0415346)³. Information provided by Robert Kelly Jr. on March 9, 2009 has identified the Company

¹ Per ADEQ, Approval of Construction for interconnection with the Town system was issued on October 28, 2009.

² According to the Company, the disconnection occurred in October 2008. Prior to this disconnection, the Company's water system regularly exceeded nitrate MCL and was out of compliance with ADEQ monitoring and reporting requirements, resulting in the ADEQ Notice of Violation issued on April 11, 2008.

³ Per ADEQ Compliance Inspection Report dated March 9, 2009.

as the entity responsible for metering and selling water to its customers, and as result, the system is reclassified as a Consecutive Community PWS to the Town of Quartzsite PWS.

Staff has requested a compliance status report ("CSR") from ADEQ, but has not received CSR at this time. As such, Staff has not been able to verify this compliance.

Staff recommends that any decision granted in this proceeding not become effective until the Company files with Docket Control, as a compliance item in the same docket, documentation showing that the Company's water system is in full compliance with ADEQ requirements and delivering safe water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

ACC Compliance Status

A check of the Utilities Division compliance database indicated that there are currently no delinquencies for the Company⁴.

Curtailment Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of water shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not yet have a CPT, this application provides an opportune time to prepare and file such a CPT.

Staff recommends that the Company file a CPT with Docket Control, as a compliance item in the same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffCONS.pdf>. Staff recognizes that the Company may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.

Backflow Prevention Tariff

The Company has not filed a backflow prevention tariff for its system. Staff recommends that the Company file a backflow prevention tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's website at www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf. Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

⁴ Per ACC Compliance status check dated March 10, 2009.

Conclusion

Staff has reviewed the expenses which total \$74,302 (rounded) that the Company incurred constructing the interconnection with the Town and determined that these expenses appear to be reasonable and appropriate. However, this does not imply any particular future treatment for rate base.